

DR. CHARLES DREW ACADEMY
Report on Financial Statements
(with required supplementary and additional information)
For the Fiscal Year Ended
June 30, 2007

**Dr. Charles Drew Academy
Financial Report
For the Fiscal Year Ended
June 30, 2007**

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DARNELL & MEYERING, P.C.

Certified Public Accountants

20600 EUREKA ROAD • SUITE 900

TAYLOR, MICHIGAN 48180

(734) 246-9240

FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
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CLINTON MEYERING, C.P.A.
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Independent Auditors' Report

Board of Directors
Dr. Charles Drew Academy
Ecorse, MI 48229

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Dr. Charles Drew Academy as of, and for the year ended June 30, 2007. These financial statements are the responsibility of Dr. Charles Drew Academy's management.

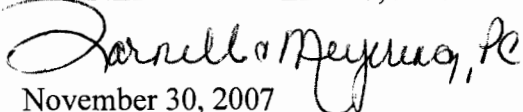
Although we are not aware of anything that would cause the financial statements to not be in accordance with generally accepted accounting principles, we were unable to obtain significant written representations from management (as outlined in Note 15) of Dr. Charles Drew Academy as required by generally accepted auditing standards.

Because management did not provide us with all written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2007, on our consideration of Dr. Charles Drew Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dr. Charles Drew Academy's basic financial statements. The additional information on page 23 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements, however, as stated in paragraph three above, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the additional information.

DARNELL & MEYERING, P.C.


November 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Dr. Charles Drew Academy's (academy) annual financial report presents our discussion and analysis of the public school academy's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Overview of the Financial Statements

The current Board of the Dr. Charles Drew Academy was appointed on July 24, 2007 after Central Michigan University (CMU) issued a Notice of Intent to Revoke the Charter of the Academy and proposed a Plan of Correction which the current Board of the Academy accepted on August 9, 2007. The Plan of Correction required removal of the prior board of the Academy for breach of confidentiality and replacement of both Helicon Associates as the Academy's educational service provider (ESP) and Mr. Kevin J. Foley as general counsel. On August 17, 2007 the current Board terminated the Helicon Consulting Agreement and Mr. Foley.

Since appointment, the new Board has worked diligently to begin to understand the financial affairs of the Academy. **The financial information provided below was provided to the auditor by the Academy's prior management company and has not been verified by the current Board or its advisors at this time.** The Academy's finances are under stress, though enrollment is increasing. At this time, the Board has not been provided access to all financial records of the Academy for the period preceding its appointment, nor has the Board received or reviewed all records created since its appointment. The Board has retained the financial consulting firm of Crawford & Winiarski to perform a forensic audit of the finances of the Academy. That audit is not complete. Based on the financial information described below, the Academy has a negative net asset balance of \$59,760, though it appears to have a positive fund balance as of June 30, 2007.

Financial Highlights

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the academy.

The first two statements are academy-wide financial statements that provide both short-term and long-term information about the academy's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the academy, reporting the academy's operations in more detail than the academy-wide statements.

The governmental funds statements tell how basic services like regular education were financed in the short-term as well as what remains for future spending.

Fiduciary funds statements provide information about the financial relationships in which the academy acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary

information that further explains and supports the financial statements with a comparison of the academy's budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1 Organization of Dr. Charles Drew Academy Annual Financial Report

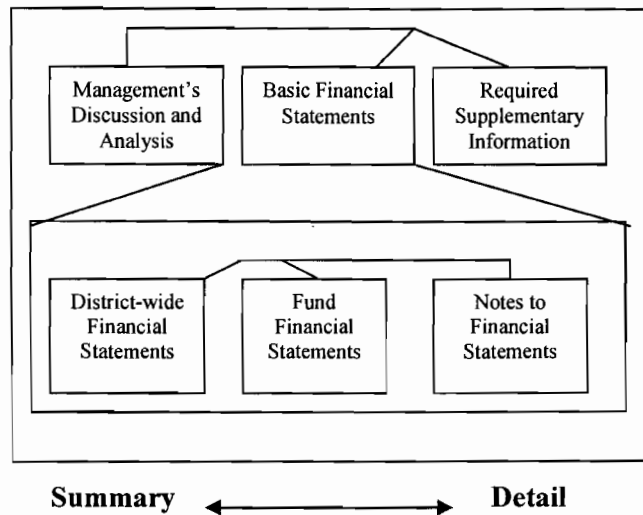


Figure A-2 summarized the major features of the academy's financial statements, including the portion of the academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A – 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements	
		Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the academy that are not fiduciary	Instances in which the academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The Academy-wide statements report information about the academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the academy's net assets and how they have changed. Net assets – the difference between the academy's assets and liabilities, are one way to measure the academy's financial health or position.

- Over time, increases or decreases in the academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the academy, you need to consider additional non-financial factors such as changes in the academy's enrollment, the condition of school buildings and other facilities, and the academy's ability to be competitive with other public school academies and area school districts.

Fund financial statements

The fund financial statements provide more detailed information about the academy's funds, focusing on its more significant or "major" funds – not the academy as a whole. Funds are accounting devices the academy uses to keep track of specific sources of funding and spending on particular programs:

Governmental activities – The academy's basic services are included in the general fund, such as regular and special education and administration. State foundation aid finances most of these activities.

The academy has two kinds of funds:

Governmental fund – Most of the academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the academy as a whole

The current Board of the Academy has insufficient information at this time to identify and disclose all laws, regulations and provisions of contracts and agreements that may have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

The Academy's 2007/8 budget was not approved by the Board until September 24, 2007. The budget was adopted in good faith based on the limited information available at the time.

The current Board does not have a fixed asset schedule in its possession. Due to the incomplete nature of the financial records in the possession of the current Board and its current agents, the following is based on information supplied by the prior management company and has not been verified by the current Board.

Net assets - the academy's combined net assets were \$(59,760) on June 30, 2007. See Figure A – 3.

The total revenues were \$3,251,954. State aid foundation allowance included in revenue from state sources accounts for 82 percent of the academy's revenue.

The total cost of instruction was \$1,185,241. The total cost of support services were \$1,478,645.

The food service had an excess of expenditures over revenues of \$41,346 in 2007. The general fund transferred this amount to the food service fund.

Academy governmental activities

Figure A-3		
Dr. Charles Drew Academy		
	<u>2007</u>	<u>2006</u>
Current assets	\$ 1,711,330	\$ 1,159,601
Noncurrent assets	<u>6,455,557</u>	<u>242,856</u>
Total assets	<u>8,166,887</u>	<u>1,402,457</u>
Current liabilities	1,901,024	1,212,903
Noncurrent liabilities	<u>6,325,623</u>	<u>309,916</u>
Total liabilities	8,226,647	1,522,819
Net assets:		
Invested in capital assets, net of related debt	(1,059)	(224,862)
Restricted - Debt service	491,344	-
Unrestricted	<u>508,095</u>	<u>104,500</u>
Total net assets (deficit)	<u>\$ (59,760)</u>	<u>\$ (120,362)</u>

Figure A-4
Changes in Dr. Charles Drew Academy's Net Assets

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 498,498	\$ 259,570
General revenues:		
State aid - unrestricted	2,648,888	1,356,075
Investment	63,343	1,822
Charges for services	3,263	3,808
Other	37,962	1,084
Total revenues	<u>3,251,954</u>	<u>1,622,359</u>
Expenses:		
Instruction	1,185,241	617,272
Support services	1,478,645	990,871
Food Services	155,689	70,285
Community services	325	-
Interest expense	371,452	-
Unallocated depreciation	-	64,293
Total expenses	<u>3,191,352</u>	<u>1,742,721</u>
Change in net assets	<u>\$ 60,602</u>	<u>\$ (120,362)</u>

Financial analysis of the academy's funds

As the academy completed the year, its governmental funds (general) reported a fund balance of \$147,847 of which \$104,409 was restricted for debt service.

General fund budgetary highlights

Over the course of the year, the academy revised the annual operating budget to account for enrollment changes and changes in assumptions.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the academy had invested \$5,537,196 in capital assets net of accumulated depreciation. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$115,894.

The Academy's capital assets are as follows:

Figure A-5 Dr. Charles Drew Academy's Capital Assets				
	Cost	Accumulated Depreciation	2007 Net Book Value	2006 Net Book Value
Land	\$ 329,312	\$ -	\$ 329,312	\$ -
Building	4,829,448	74,760	4,754,688	21,939
Computers	129,629	32,869	96,760	72,053
Furniture, Fixtures & Equipment	248,807	15,661	233,146	148,864
Total	<u>\$ 5,537,196</u>	<u>\$ 123,290</u>	<u>\$ 5,413,906</u>	<u>\$ 242,856</u>

Long-term debt

At year end the Academy had significant debt, including \$6,190,000 used to purchase the above referenced Building (figure A-5); more details are included in Note 7.

Factors bearing on the academy's future

At the time these financial statements were prepared and audited, circumstances exist that could significantly affect its financial health in the future. See *Overview of Financial Statements*, above.

Contacting the academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the academy's office at 50 W. Josephine, Ecorse, MI 48229.

Dr. Charles Drew Academy
Statement of Net Assets
June 30, 2007

Assets	<u>Governmental Activities</u>
Current assets:	
Cash and equivalents	\$ 1,111,656
Receivables:	
Accounts receivable	430
Other governmental units	599,244
Total current assets	<u>1,711,330</u>
Noncurrent assets:	
Investments - debt service	550,149
Investments - capital projects	26,845
Issuance costs, net of amortization	464,657
Capital assets	5,537,196
Less accumulated depreciation	(123,290)
Total noncurrent assets	<u>6,455,557</u>
Total assets	<u><u>\$ 8,166,887</u></u>
Liabilities And Net Assets (Deficit)	
Current liabilities:	
Accounts payable	\$ 34,972
Accrued interest	69,644
Revenue anticipation notes	1,621,818
Deferred revenue	263
Current portion of long term obligations	174,327
Total liabilities	<u>1,901,024</u>
Noncurrent liabilities:	
Noncurrent portion of long term obligations	6,325,623
Total noncurrent liabilities	<u>6,325,623</u>
Total liabilities	<u>8,226,647</u>
Net assets:	
Invested in capital assets - net of related debt (deficit)	(1,059,199)
Restricted - debt service	491,344
Unrestricted	508,095
Total net assets (deficit)	<u>(59,760)</u>
Total liabilities and net assets (deficit)	<u><u>\$ 8,166,887</u></u>

See notes to financial statements.

Dr. Charles Drew Academy
Statement of Activities
Year Ended June 30, 2007

Functions/programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants & Contributions	Net (expense) Revenue and Changes in Net Assets
Governmental activities:				
Instruction	\$ 1,185,241	\$ -	\$ 387,418	\$ (797,823)
Support services	1,478,645	-	-	(1,478,645)
Food services	155,689	3,263	111,080	(41,346)
Community services	325	-	-	(325)
Interest expense	371,452	-	-	(371,452)
Total governmental activities	<u>\$ 3,191,352</u>	<u>\$ 3,263</u>	<u>\$ 498,498</u>	(2,689,591)
General revenues:				
State of Michigan school aid unrestricted				2,648,888
Investment revenue				63,343
Miscellaneous				37,962
Total general revenues				<u>2,750,193</u>
Change in net assets				60,602
Net assets, beginning of year (deficit)				<u>(120,362)</u>
Net assets, end of year (deficit)				<u>\$ (59,760)</u>

See notes to financial statements.

Dr. Charles Drew Academy
Balance Sheet
Governmental Funds
June 30, 2007

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Assets:					
Cash and equivalents	\$ 1,111,656	\$ -	\$ -	\$ -	\$ 1,111,656
Receivables:					
Accounts receivable	430	-	-	-	430
Other governmental units	599,244	-	-	-	599,244
Investments - restricted	104,409	445,740	26,845	-	576,994
Total assets	<u>\$ 1,815,739</u>	<u>\$ 445,740</u>	<u>\$ 26,845</u>	<u>\$ -</u>	<u>\$ 2,288,324</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 34,972	\$ -	\$ -	\$ -	\$ 34,972
Accrued interest	10,839	-	-	-	10,839
Revenue anticipation notes	1,621,818	-	-	-	1,621,818
Deferred Revenue	263	-	-	-	263
Total liabilities	<u>1,667,892</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,667,892</u>
Fund balances:					
Reserved for debt service	104,409	445,740	-	-	550,149
Reserved for capital projects	-	-	26,845	-	26,845
Unreserved, undesignated	43,438	-	-	-	43,438
Total fund balances	<u>147,847</u>	<u>445,740</u>	<u>26,845</u>	<u>-</u>	<u>620,432</u>
Total liabilities and fund balances	<u>\$ 1,815,739</u>	<u>\$ 445,740</u>	<u>\$ 26,845</u>	<u>\$ -</u>	<u>\$ 2,288,324</u>

Total governmental fund balances

\$ 620,432

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are financial resources and are not reported in the funds

The cost of capital assets is	\$ 5,537,196
Accumulated depreciation is	<u>(123,290)</u>
	5,413,906

Debt issuance cost	472,950
Accumulated amortization	<u>(8,293)</u>
	464,657

Long term liabilities are not due and payable in the current period and are not reported in the funds	
Certificate of Participation	(6,190,000)
Capital lease obligations	<u>(309,950)</u>

Accrued interest payable is not included as a liability in governmental funds	<u>(58,805)</u>
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Net (deficit) of governmental activities

\$ (59,760)
<u><u> </u></u>

See notes to financial statements.

Dr. Charles Drew Academy
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	General Fund	Debt Service Fund	Capital Projects Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenues:					
Local sources	\$ 62,702	\$ 10,534	\$ 28,069	\$ 3,263	\$ 104,568
State sources	2,732,131	-	-	1,601	2,733,732
Federal sources	304,175	-	-	109,479	413,654
Total revenues	3,099,008	10,534	28,069	114,343	3,251,954
Expenditures:					
Current:					
Instruction:					
Basic programs	1,103,296	-	-	-	1,103,296
Added needs	191,755	-	-	-	191,755
Total instruction	1,295,051	-	-	-	1,295,051
Support services:					
Pupil	45,651	-	-	-	45,651
Instructional staff	24,682	-	-	-	24,682
General administration	351,877	-	-	-	351,877
School administration	353,185	-	-	-	353,185
Business	379,797	-	478,450	-	858,247
Operations/maintenance	649,572	-	5,002,411	-	5,651,983
Central	31,564	-	-	-	31,564
Total support services	1,836,328	-	5,480,861	-	7,317,189

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Expenditures (concluded):					
Current (concluded):					
Food Service	-	-	-	155,689	155,689
Community service	325	-	-	-	325
Debt service:					
Principal retirements	157,768	-	-	-	157,768
Total expenditures	3,289,472	-	5,480,861	155,689	8,926,022
Excess (deficiency) of revenues over expenditures	(190,464)	10,534	(5,452,792)	(41,346)	(5,674,068)
Other financing sources (uses):					
Operating transfers out	(41,346)	(10,534)	(710,363)	-	(762,243)
Operating transfers in	275,157	445,740	-	41,346	762,243
Financing proceeds	-	-	6,190,000	-	6,190,000
Total other financing sources (uses):	233,811	435,206	5,479,637	41,346	6,190,000
Net change in fund balances	43,347	445,740	26,845	-	515,932
Fund balances:					
Beginning of year	104,500	-	-	-	104,500
End of year	\$ 147,847	\$ 445,740	\$ 26,845	\$ -	\$ 620,432

See notes to financial statements

Net change in fund balances total governmental funds

Governmental funds report capital outlays as expenditures.

5,278,651
(107,601)

Proceeds from Certificates of Participation	(6,190,000)
Issuance costs on Certificates of Participation	472,950
Amortization of debt issuance costs	(8,293)
Principal repayment of capital leases	157,768

Accrued interest payable beginning of the year	-
Accrued interest payable end of the year	(58,805)

\$ 60,602

5

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

The accounting policies of Dr. Charles Drew Academy conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy.

A. Reporting Entity

Dr. Charles Drew Academy is a public school academy. A public school academy is a Michigan Public School System Under Public Act No. 362 of 1993 and is subject to the leadership and general supervision of the State Board of Education. Central Michigan University is the authorizing body of the Academy and has contracted with the Academy confirming the status of the public school academy. The contract with Central Michigan expires on June 30, 2011. Dr. Charles Drew Academy's school board is approved by the authorizing body and is authorized to manage the property and affairs of the Academy. The Academy does not include any component unit within its financial statements as defined in Governmental Accounting Standards Board Statements Nos. 14 and 39.

B. Charter-Wide and Fund Financial Statements

Measurement focus, basis of accounting, and financial statement presentation

CHARTER-WIDE STATEMENTS

The charter-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The charter-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

In the charter-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Academy first utilizes restricted resources to finance qualifying activities.

The charter-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate Academy sources, interest income and other revenues).

The Academy does not allocate indirect costs.

This charter-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The charter-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private—sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the charter-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

FUND BASED STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, if any, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

The Academy reports the following major funds:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the servicing of the Academy's Certificates of Participation (COP). COPs are classified as long-term debt instruments that are required to be maintained in a separate fund with its own bank account.

The *capital projects fund* accounts for amounts received from financing funds to construct buildings. It also accounts for the construction costs and their disbursements throughout the construction period.

Additionally, the Academy reports the following non-major fund type;

Special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes.

The school service funds are special revenue funds that separate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The school *service fund* maintained by the Academy is the *food service fund*.

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

As a general rule, the effect of interfund activity has been eliminated from the charter-wide financial statements except for any accounts due to or due from the special revenue fund as related to the other governmental funds.

C. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The Academy's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the academy intends to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. Banks, and mutual funds composed of investments as outlined above.

2. Receivables

The State of Michigan utilizes a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to charter schools based on information supplied by the schools. For the year June 30, 2007 the foundation allowance was based on the pupil membership counts taken in September of 2006 and February of 2007.

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Notes to the Financial Statements
June 30, 2007
(Continued)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sale and other taxes. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30 is reported as state aid receivable.

The Academy also receives revenue from the State to administer certain categorical education programs. State rules required that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the charter-wide and fund financial statements.

4. Fund Equity Balance

The unreserved fund equity balances for governmental funds represent the amount available for budgeting future operations. The reserved fund equity balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute "available spendable resources". The designated fund equity balances for governmental funds represent tentative plans for future use of financial resources.

5. Capital Assets

Capital assets include property, plant, and equipment which are reported in the applicable governmental activities column in the charter-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure type assets.

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Notes to the Financial Statements
June 30, 2007
(Continued)

Depreciation on all assets is provided using the straight-line method over the following useful lives:

Computers	5 years
Furniture, fixtures and equipment	20 years
Building & building improvements	7 - 50 years

6. Use of Estimates

The process of preparing general purpose financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Note 2. Stewardship, Compliance and Accountability

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for capital outlay, which is reported in the function or activity it services. An annual appropriated budget is adopted for the general fund and food service fund. All annual appropriations lapse at fiscal year end.

The Academy maintains a formalized encumbrance accounting system.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Management Organization submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditures and changes in fund balances – budget and actual – general fund and special revenue funds.
- B. Public hearings are conducted to obtain local public comments.
- C. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act. The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the budgeting act are disclosed as unfavorable variances in the budgetary comparison schedule – general fund and special revenue fund.

- D. The management company is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
- E. Formal budgetary integration is employed as a management control device during the year for the general fund and special revenue fund.
- F. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30th.
- G. The Academy did not have significant expenditure budget variances.

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Notes to the Financial Statements
June 30, 2007
(Continued)

Note 3. Deposits, Investments, and Restricted Investments

The Academy is governed by the deposit and investment limitations of Michigan State law which are indicated in the Summary of Significant Accounting Policies reported earlier. Under the terms of the Certificates of Participation debt agreement, certain investments are required to be restricted. The deposits and investments held at June 30, 2007, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Unrestricted Deposits			
Deposits:			
Cash on hand			\$ 200
Demand deposits			16,907
			<u>17,107</u>
Unrestricted Investments:			
Money Market Fund	Unrated	Various	<u>1,094,549</u>
Total Unrestricted Deposits and Investments			1,111,656
Restricted Investments:			
U.S. Treasury & Agency Obligations	Aaa	Various	<u>576,994</u>
Total Deposits, Investments, and Restricted Investments			<u>\$ 1,688,650</u>
Reconciliation to Statement of Net Assets:			
Current:			
Cash and Cash Equivalents			\$ 1,111,656
Noncurrent:			
Investments - Debt Service			550,149
Investments - Capital Projects			26,845
Total Deposits, Investments, and Restricted Investments			<u>\$ 1,688,650</u>

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates by; structuring the investment portfolio so that the securities purchased can mature immediately when funds are needed to meet operating needs (sweep account). This avoids the need to sell securities in the open market, and investing operating funds primarily in short term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2007, the Academy had no rated investments in commercial paper or corporate bonds.

Concentration of Credit Risk

The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the even of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2007, \$0 of the Academy's bank balance of \$25,000 was exposed to custodial credit risk because it was covered by federal depository insurance. The FDIC insures bank deposits up to \$100,000.

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Academy minimizes custodial credit risk by limiting investments to bank investment pools invested in U.S. Government Obligations and pre-qualifying the financial institution with which the Academy will do business. Of the investments in U.S. Treasury and Agency Obligations and Money Market Funds of \$1,761,544, the Academy has a custodial credit risk exposure of \$1,761,544 because the related securities are uninsured and unregistered.

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign Currency Risk

The Academy is not authorized to invest in investments, which have this type of risk.

Note 4. Receivables

Receivables as of year-end were as follows:

	<u>General</u>
Receivables	
Other	\$ 430
State aid	495,397
Federal	<u>103,847</u>
Net total receivables	<u><u>\$ 599,674</u></u>

All receivables were deemed collectible as of June 30, 2007.

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Notes to the Financial Statements
June 30, 2007
(Continued)

Note 5. Capital Assets

Capital asset activity for the Academy for the current fiscal year was as follows:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 329,312	\$ -	\$ 329,312
Capital assets being depreciated:				
Computers	81,836	47,793	-	129,629
Furniture, fixtures, and equipment	154,115	94,692	-	248,807
Building & building improvements	22,594	4,806,854	-	4,829,448
Subtotal	258,545	4,949,339	-	5,207,884
Total capital assets	258,545	5,278,651	-	5,537,196
Less accumulated depreciation for:				
Computers	9,783	23,086	-	32,869
Furniture, fixtures, and equipment	5,251	10,410	-	15,661
Building & building improvements	655	74,105	-	74,760
Subtotal	15,689	107,601	-	123,290
Net capital assets being depreciated	242,856	4,841,738	-	5,084,594
Other assets:				
Certificates of Participation issuance costs	-	472,950	-	472,950
Accumulated amortization	-	(8,293)	-	(8,293)
Subtotal	-	464,657	-	464,657
Net governmental capital assets and other assets	<u>\$ 242,856</u>	<u>\$ 5,635,707</u>	<u>\$ -</u>	<u>\$ 5,878,563</u>

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Notes to the Financial Statements
June 30, 2007
(Continued)

Depreciation and amortization for the fiscal year ended June 30, 2007 amounted to \$115,894. Depreciation and amortization was charged to programs of the primary government as follows:

Governmental Activities:

Instruction	\$ 26,200
Support	89,694
	<u>\$ 115,894</u>

Note 6. Interfund Transfers

The transfers from the General Fund were made to support the debt payments being paid out of the Debt Service Fund and to support expenditures being paid out of the Lunch Fund.

Transfer in:

	<u>General</u>	<u>Food Service Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Transfer out:				
General Fund	\$ -	\$ 41,346	\$ -	\$ 41,346
Capital Projects	10,534	-	445,740	456,274
Debt Service Fund	<u>264,623</u>	<u>-</u>	<u>-</u>	<u>264,623</u>
Total	<u>\$ 275,157</u>	<u>\$ 41,346</u>	<u>\$ 445,740</u>	<u>\$ 762,243</u>

Note 7. Long-Term Debt

The Academy issues Certificates of Participation (COP) and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. The COPs are direct obligations and pledge the full faith and credit of the Academy. Other long-term obligations include capital leases.

In November 2006, the Academy issued \$6,190,000 of Certificates of Participation.

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Notes to the Financial Statements
June 30, 2007
(Continued)

In December 2006, the Academy acted as a conduit financier on the issuance of a Full Term Certificate of Participation, Series 2006 for Crescent Academy to enable them to finance the purchase of its school building. Dr. Charles Drew Academy is receiving a yearly fee of 1/8 of 1% of the outstanding balance from Crescent Academy for that transaction. The fee for the June 30, 2007 year end was \$35,000.

Long-term obligation activity can be summarized as follows:

Governmental Activities	Balance 7/1/06	Additions	Reductions	Balance 6/30/07	Within One Year
2006 COPs	\$ -	\$ 6,190,000	\$ -	\$ 6,190,000	\$ -
Total COPs	-	6,190,000	-	6,190,000	-
Capital Leases:					
Ronald Baker	50,000	-	15,037	34,963	16,612
David McHugh	130,000	-	39,097	90,903	43,190
Dennis Wilkin	80,000	-	24,059	55,941	26,579
R. Daniel Webster	80,000	-	24,059	55,941	26,579
Lorraine Berlin	37,564	-	16,328	21,236	43,318
Lawrence Waddle	90,154	-	39,188	50,966	18,049
Total Capital Leases	467,718	-	157,768	309,950	174,327
Total	\$ 467,718	\$ 6,190,000	\$ 157,768	\$ 6,499,950	\$ 174,327

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Notes to the Financial Statements
June 30, 2007
(Continued)

The annual requirements to service the bonds and capital lease obligation, including principal and interest are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 174,327	\$ 375,979	\$ 550,306
2009	135,623	359,829	495,452
2010	85,000	350,408	435,408
2011	90,000	345,420	435,420
2012	95,000	340,148	435,148
2013-2017	570,000	1,610,250	2,180,250
2018-2022	760,000	1,421,295	2,181,295
2023-2027	1,010,000	1,170,780	2,180,780
2028-2032	1,345,000	837,188	2,182,188
2033-2037	2,235,000	382,328	2,617,328
	<u>\$ 6,499,950</u>	<u>\$ 7,193,625</u>	<u>\$ 13,693,575</u>
Total	<u>\$ 6,499,950</u>	<u>\$ 7,193,625</u>	<u>\$ 13,693,575</u>

Governmental Activities:

The Academy has outstanding leases for the acquisition of fixed assets and textbooks. Long-term debt is as follows:

Long-term obligations currently outstanding are as follows:

Capital lease due in monthly installments of \$1,613 beginning July 1, 2006 through June 1, 2009. The interest rate is 10.00% per annum. \$ 34,963

Capital lease due in monthly installments of \$1,613 beginning July 1, 2006 through June 1, 2009. The interest rate is 10.00% per annum. 90,903

Capital lease due in monthly installments of \$2,581 beginning July 1, 2006 through June 1, 2009. The interest rate is 10.00% per annum. 55,941

Capital lease due in monthly installments of \$2,581 beginning July 1, 2006 through June 1, 2009. The interest rate is 10.00% per annum. 55,941

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Capital lease due in monthly installments of \$1,613
beginning Septmeber 1, 2005 through August 1, 2008.
The interest rate is 10.00% per annum. 21,236

Capital lease due in monthly installments of \$3,872
beginning Septmeber 1, 2005 through August 1, 2008.
The interest rate is 10.00% per annum. 50,966

Revenue and Refunding Bonds with semi-annual installments
through November 1, 2036. Interest stated at 5.70% with interest
only payments thru May 1, 2009. 6,190,000

Total long-term debt \$6,499,950

Note 8. Revenue Anticipation Note

Dr. Charles Drew Academy has an outstanding revenue anticipated note of \$1,255,000 with interest of 7.56% to assist with operational cash flows prior to the receipt of state aid payments. The note is secured by funding provided from the State of Michigan's foundation grant revenue. The balance at June 30, 2007 was \$342,273 with a maturity date of August 31, 2007. A new note was obtained by the Academy in the amount of \$1,279,545 with an interest per annum at a rate equal to the bank's prime rate from time to time in effect minus ½% per annum until maturity on October 1, 2007.

The following is a summary of revenue anticipation notes of the Academy for the year ended June 30, 2007:

	Balance 7/1/06	Additions	Reductions	Balance 6/30/07
2005-2006	\$ 143,455	\$ -	\$ 143,455	\$ -
2006-2007	896,364	358,636	912,727	342,273
2007-2008	-	1,279,545	-	1,279,545
Total	<u>\$ 1,039,819</u>	<u>\$ 1,638,181</u>	<u>\$ 1,056,182</u>	<u>\$ 1,621,818</u>

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Note 9. Purchased Services

The Academy leases all employee services from MJ Management Services, Inc. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of this management company.

Note 10. Management Company

Helicon Associates, Inc. provides management services under a Consultancy Services Agreement, which commenced on July 1, 2005 and shall expire on June 30, 2007. The management company's fees are equal to 10 percent (10%) of the product of the Academy's state school aid basic foundation allowance multiplied by the number of full time equated pupils enrolled and in regular daily attendance on the pupil membership count day for the current school year. During the year ended June 30, 2007, the Academy incurred expense of \$180,500 for management fees.

Note 11. Oversight fees

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to Central Michigan University, as set forth by contract, to reimburse the University for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of \$79,358 for oversight fees.

Note 12. Risk Management

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employee's and natural disasters.

The Academy continues to carry commercial insurance for other risks of loss.

Note 13. Related Party Transactions

The Academy was leasing its facility from Ral Rom, LLC. The owner and three employees of the Academy's management company were investor members of that LLC. In November 2006, the building was purchased by the Academy. During the year ended June 30, 2007, the Academy incurred expense of \$249,916 for lease expenses.

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Notes to the Financial Statements
June 30, 2007
(Continued)

There were relatives of two board members who were investor members of Ral Rom, LLC. In June 2007, all the board members had, at the request of Central Michigan University, resigned and a new board was appointed by the authorizer.

Note 14. Subsequent Events

On April 12, 2007, the Central Michigan University Charter Schools Office issued a Notice of Intent to Revoke to the Academy alleging that the Academy violated applicable law and certain provisions of the contract to charter a public school academy and related documents that were issued by the Central Michigan University Board of Trustees to the Academy on July 1, 2005. On August 8, 2007, Central Michigan University issued a Plan of Correction.

Included in this plan were the following significant items:

1. The Academy had entered into a Consultancy Services Agreement with Helicon Associates, Inc. dated July 1, 2005. This agreement was to be terminated and a new educational services provider retained on or before August 16, 2007.
2. The plan called for the resignation of the board of directors, CAO, and the Academy's legal counsel.
3. The Academy had entered into a conduit financing agreement (see Note 7). By February 1, 2008, the Academy must submit a plan to unwind this transaction with Crescent Academy. The plan shall ensure that the Academy is no longer involved as a conduit financier of Crescent Academy's school facilities. In the event this transaction is not unwound by June 30, 2008, the Academy Board agrees and understands that the CSO Director shall deem the Academy to be in violation of this Plan of Correction and may immediately commence revocation proceedings against the Academy with a recommendation to the University Board that the Contract be revoked prior to the start of classes for the 2008-2009 school year. The unwinding of this transaction will result in the loss of future yearly transaction fees received from Crescent Academy. For the year ended June 30, 2007, that transaction fee received was \$35,000.

The Academy has six outstanding capital leases totaling \$309,950 (see Note 7), which have been referred to legal counsel for review and recommendation.

DR. CHARLES DREW ACADEMY
Notes to the Financial Statements
June 30, 2007
(Continued)

Note 15 Scope Limitations/Management Representations

Although Helicon has confirmed the following items, the Academy has:

1. Failed to confirm that it had no knowledge of any fraud or suspected fraud affecting the entity involving management, employees who have significant roles in internal control, or others where the fraud could have a material effect on the financial statements. There was no confirmation that they had no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others. Furthermore, the Board has retained the financial consulting firm of Crawford & Winiarski to perform a forensic audit of the finances of the Academy. That audit is not complete.
2. Failed to confirm that the Academy has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
3. Failed to confirm that they had identified and disclosed to us all laws, regulations and provisions of contracts and agreements that they believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.
4. Failed to confirm that there were no other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5; and that there were no reservations or designation of fund equity that were not properly authorized and approved.
5. Failed to confirm that they had reviewed, approved, and accepted responsibility for the financial statements and related notes.
6. Failed to confirm they had satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

Accordingly, SAS No. 85 (AU 333.13) requires our disclaimer of an opinion.

REQUIRED SUPPLEMENTARY INFORMATION

Dr. Charles Drew Academy
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 6,000	\$ 52,000	\$ 62,702	\$ 10,702
State sources	2,636,250	2,732,044	2,732,131	87
Federal sources	267,449	285,768	304,175	18,407
Total revenues	2,909,699	3,069,812	3,099,008	29,196
Expenditures:				
Current:				
Instruction:				
Basic programs	1,026,335	1,106,403	1,103,296	3,107
Added needs	171,090	196,436	191,755	4,681
Total instruction	1,197,425	1,302,839	1,295,051	7,788
Support services:				
Pupil	30,000	47,000	45,651	1,349
Instructional staff	61,191	25,476	24,682	794
General administration	294,438	353,967	351,877	2,090
School administration	212,475	354,100	353,185	915
Business	252,550	380,215	379,797	418
Operations/maintenance	663,000	653,866	649,572	4,294
Central	42,000	32,500	31,564	936
Total support services	1,555,654	1,847,124	1,836,328	10,796

	Original Budget	Final Budget	Actual	Variance with final budget Favorable (Unfavorable)
Expenditures (concluded):				
Community service	718	389	325	64
Debt service:				
Principal retirements	103,050	157,825	157,768	57
Total expenditures	2,856,847	3,308,177	3,289,472	18,705
Excess (deficiency) of revenues over expenditures	52,852	(238,365)	(190,464)	47,901
Other financing sources (uses):				
Operating transfers out	(25,000)	(40,000)	(41,346)	(1,346)
Operating transfers in		269,623	275,157	5,534
Total other financing sources (uses)	(25,000)	229,623	233,811	4,188
Net change in fund balance	27,852	(8,742)	43,347	52,089
Fund balance:				
Beginning of year	104,500	104,500	104,500	-
End of year	\$ 132,352	\$ 95,758	\$ 147,847	\$ 52,089

ADDITIONAL INFORMATION

Dr. Charles Drew Academy
Budgetary Comparison Schedule
Food Service Fund
Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance with Final budget Favorable (Unfavorable)
Revenues:				
Local sources	\$ 25,000	\$ 3,264	\$ 3,263	\$ (1)
State sources		1,601	1,601	-
Federal sources	109,500	110,135	109,479	(656)
Total revenues	134,500	115,000	114,343	(657)
Expenditures:				
Food service	159,500	155,000	155,689	(689)
Total expenditures	159,500	155,000	155,689	(689)
Excess (deficiency) of revenues over expenditures	(25,000)	(40,000)	(41,346)	(1,346)
Other financing sources (uses):				
Operating transfers in	25,000	40,000	41,346	1,346
Total other financing sources (uses)	25,000	40,000	41,346	1,346
Net change in fund balance	-	-	-	-
Fund balance:				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
WENDY L. DANVILLE, C.P.A.

20600 EUREKA ROAD • SUITE 900
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Directors
Dr. Charles Drew Academy
Ecorse, MI 48229

We have audited the financial statements of Dr. Charles Drew Academy, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dr. Charles Drew Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Dr. Charles Drew Academy's internal control over financial reporting. Because management did not provide us with all written representations, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements. This also limited our scope in consideration of the effectiveness of internal controls. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

2007 – 1 Finding:

The Academy has hired a management company to provide bookkeeping and accounting services which includes cash disbursements and the maintaining and reconciling of all bank accounts. In our assessment of internal controls, we found there was not adequate segregation of duties in the accounts payable process among the two persons involved. There is no independent verification and approval of the source documents to support expenditures charged to the Academy

Response:

The Academy has retained a new management company for the 2007/2008 school year and will now be under new internal control procedures.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

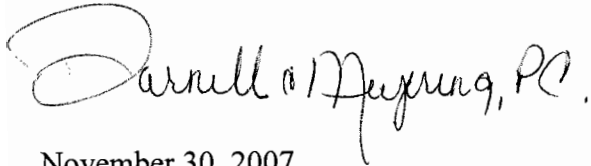
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dr. Charles Drew Academy's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions

was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These certain matters are reported to management of Dr. Charles Drew Academy in a separate letter dated November 30, 2007.

This report is intended solely for the information and use of management, others within the Academy, the Michigan Department of Education, Michigan Department of Treasury and ISD and is not intended to be and should not be used by anyone other than these specified parties.

DARNELL & MEYERING, P.C.

A handwritten signature in cursive script that reads "Darnell & Meyering, P.C.". The signature is written in dark ink and is positioned below the printed name of the firm.

November 30, 2007

**DR. CHARLES DREW ACADEMY
(A Charter Public School)**

COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2007

DARNELL & MEYERING, P.C.

Certified Public Accountants

CLINTON MEYERING, C.P.A.
RANDALL H. DARNELL, C.P.A.
DALE A. VESTRAND, C.P.A.
WENDY L. DANVILLE, C.P.A.

20600 EUREKA ROAD • SUITE 900
TAYLOR, MICHIGAN 48180
(734) 246-9240
FAX (734) 246-8635

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

November 30, 2007

School Board Members
Dr. Charles Drew Academy
Ecorse, MI 48229

We have audited the general-purpose financial statements of Dr. Charles Drew Academy for the year ended June 30, 2007 and have issued our report dated November 30, 2007. As part of our audit, we reviewed the Academy's accounting procedures and system of internal controls to determine the nature, timing, and extent of the auditing procedures necessary to express an opinion on the annual financial statements.

The objective of internal control is to provide reasonable, but not absolute assurance as to: 1) the safeguarding of assets against loss from unauthorized use or disposition, 2) proper division of duties between various employees to provide a reasonable check upon transactions and, 3) the reliability of financial records for preparing financial statements and maintaining accountability for assets.

We would like to note that, based on the prior year's comments and recommendations, the following changes have been made:

General Fund

Account codes are being recorded on the invoice to be paid.

The following are comments and recommendations that we have at this time:

1. Comment 2007-A:

Not all invoices or purchase orders had an approved signature for payment.

Recommendation:

All checks to be written should be approved by the appropriate person and the person's signature should be on the purchase order or invoice to be paid.

2. Comment 2007-B:

An invoice in excess of the bid limit was paid to a construction contractor without bids being obtained.

Recommendation:

Per MCL 380.1267, competitive bids should be obtained on all material and labor required for the complete construction of a proposed new building or addition to or repair or renovation of an existing school building that is in excess of the bid amount.

Response:

2007-A&B: The Academy has retained the services of a new management company and there is a new board of directors for the 2007/2008 school year. New policies are being put in place.

Dr. Charles Drew Academy's response to the findings identified in our audit is described above. We did not audit Dr. Charles Drew Academy's response and, accordingly, we express no opinion on it.

The above comments and recommendations are presented for your consideration. If there are any questions regarding this matter of internal control, we would be glad to discuss it with you at your convenience.

Sincerely,



DARNELL & MEYERING, P.C.